

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT E-00 INR-07 NSAE-00 FAA-00 L-03 SS-15 NSC-05 H-02

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R 090820Z MAR 76

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 3974

C O N F I D E N T I A L JIDDA 1738

E.O. 11652: GDS

TAGS: EAIR, BGEN, SA, US

SUBJECT: LOCKHEED AIRCRAFT NEGOTIATIONS WITH SAG FOR AIR TRAFFIC
CONTROL SYSTEM

SUMMARY: LOCKHEED VICE PRESIDENT SCHNEPP INFORMS US THAT A \$600 MILLION CONTRACT WITH THE SAG TO PROVIDE AN AIR TRAFFIC CONTROL SYSTEM IS ABOUT TO BE APPROVED BUT IS BEING HELD UP BY THE DOUBTS OF SOME MINISTERS OVER THE CORRECTNESS OF THE PRICE AND CONCERN ABOUT LOCKHEED'S FUTURE. MINDEF AND AVIATION PRINCE SULTAN HAS OBTAINED CABINET AGREEMENT THAT THESE QUESTIONS WILL BE CONSIDERED RESOLVED IF THE EMBASSY WILL ADDRESS THESE POINTS IN A LETTER. SCHNEPP SAYS WE WILL BE GETTING A LETTER IMMEDIATELY FROM SULTAN ASKING FOR OUR ASSURANCES IN THESE REGARDS. WHILE IT IS CLEARLY IMPOSSIBLE FOR THE USG TO EVALUATE THE REASONABLENESS OF THE PRICE FOR THIS COMPLEX PROJECT OR TO GIVE ASSURANCES ABOUT LOCKHEED'S FUTURE, WE HAVE PROPOSED IN PARA FOUR LANGUAGE FOR A REPLY WHICH WE BELIEVE WILL SATISFY SULTAN WHO WANTS THE CONTRACT SIGNED. THE DEPARTMENT IS REQUESTED TO APPROVE THAT LANGUAGE OR PROVIDE ALTERNATIVE WORKING. SCHNEPP SAYS THAT TIME IS OF GREAT IMPORTANCE BECAUSE INFLATION IS RAPIDLY MAKING NEGOTIATED PRICES ABSOLUTE AND BRITISH COMPETITORS ARE HOVERING TO POUNCE IF LOCKHEED FALLS. END SUMMARY.

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1. FOR MUCH OF THE PAST YEAR THE LOCKHEED AIRCRAFT CORPOR-

ATION HAS BEEN NEGOTIATING WITH THE SAG FOR AN AIR TRAFFIC CONTROL SYSTEM FOR SAUDI ARABIA. THE VALUD OF THE CONTRACT IS IN EXCESS OF \$600 MILLION. MAJOR SUBCONTRACTORS FOR THIS PROJECT ARE ITT AND MARCONI LTD OF THE UK.

2. ON MARCH 8, C.M. SCHNEPP, VICE PRESIDENT FOR INTERNATIONAL MARKETING OF THE LOCKHEED AIRCRAFT SERVICES COMPANY MET WITH THE DCM AND ECONOMIC AND POLITICAL COUNSELORS TO SEEK EMBASSY ASSISTANCE IN SURMOUNTING WHAT LOCKHEED HOPES WILL BE THE LAST HURDLE ON THE TANGLED ROUTE TO CONCLUSION OF THESE NEGOTIATIONS. IT APPEARS THAT IN THE MOST RECENT SESSION OF THE COUNCIL OF MINSTERS WHEN THE PROJECT WAS TO HAVE BEEN FINALLY APPROVED, MEMBERS OF THE MINISTERIAL COMMITTEE WHICH HAD BEEN CREATED TO EVALUATE THE CONTRACT GAVE THEIR GENERAL APPROVAL BUT STATED THEIR INABILITY TO EVALUATE THE CORRECTNESS OF THE PRICE. OTHER MEMBERS OF THE COUNCIL OF MINISTERS RAISED THE QUESTION OF WHETHER LOCKHEED, IN VIEW OF ITS PRESENT BESIEGED STATUS, WOULD BE AROUND LONG ENOUGH TO COMPLETE THE PROJECT. PRINCE SULTAN, MINISTER OF DEFENSE AND AVIATION, (WHO APPARENTLY WANTS THE CONTRACT SIGNED AS SOON AS POSSIBLE SINCE ALL IMPROVEMENTS IN THE SAUDI AIR TRAFFIC CONTROL SYSTEM HAVE BEEN HELD IN ABEYANCE PENDING THE COMPLETION OF THE NEGOTIATIONS) OBTAINED MINISTERIAL AGREEMENT THAT THESE QUESTIONS WOULD BE CONSIDERED RESOLVED IF HE WERE TO RECEIVE A COMMUNICATION FROM THE AMERICAN EMBASSY DEALING WITH THEM.

3. SCHNEPP INFORMS US THAT WE VERY SHORTLY WILL BE RECEIVING A LETTER FROM PRINCE SULTAN ASKING US TO COMMENT ON THE REASONABLENESS OF THE NEGOTIATED CONTRACT PRICE AND ON LOCKHEED'S LONG-TERM CHANCES FOR SURVIVAL. OBVIOUSLY, NEITHER THE EMBASSY NOR THE U.S. GOVERNMENT IS IN A POSITION TO GIVE DEFINITIVE RESPONSES TO QUESTIONS ON EITHER OF THESE POINTS. HOWEVER, WE BELIEVE THAT A NONCOMMITAL LETTER ALONG THE LINES OF THE TEXT CONTAINED IN THE FOLLOWING PARAGRAPH WOULD BE ADEQUATE FOR PRINCE SULTAN'S PURPOSES IN OBTAINING FINAL CABINET APPROVAL OF THE PROJECT.

4. BEGIN PROPOSED TEXT OF LETTER TO PRINCE SULTAN: IN RESPONSE TO YOUR LETTER OF (DATE-----) CONCERNING LOCKHEED
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AIRCRAFT CORPORATION'S PROPOSAL FOR IMPROVING THE SAUDI ARABIAN AIR TRAFFIC CONTROL SYSTEM, I AM PLEASED TO OFFER THE FOLLOWING INFORMATION. THE LOCKHEED AIRCRAFT CORPORATION IS THE LARGEST DEFENSE CONTRACTOR OF THE U.S. GOVERNMENT. THE U.S. GOVERNMENT HAS NUMEROUS LONG-TERM DEFENSE CONTRACTS WITH THAT CORPORATION AND EXPECTS THAT LOCKHEED WILL FULFILL ITS CONTRACTURAL OBLIGATIONS TO THE U.S. GOVERNMENT.

THE SUBJECT OF THE FUTURE OF THE LOCKHEED CORPORATION WAS DISCUSSED BY TREASURY SECRETARY SIMON DURING A FEBRUARY 29 MEETING IN RIYADH WITH THEIR EXCELLENCIES MOHAMMAD ABU KHAIL, MINISTER OF FINANCE AND NATIONAL ECONOMY; GHAZI AL-GOSAIBI, MINISTER OF INDUSTRY AND ELECTRICITY; ABD AL-AZIZ AL-QURAISHI, GOVERNOR OF THE SAUDI ARABIAN MONETARY AGENCY AND DEPUTY MINISTER OF FINANCE MANSOUR AL TURKI. OUR ROYAL HIGHNESS MAY WISH TO OBTAIN FROM THOSE INDIVIDUALS THEIR RECOLLECTIONS OF SECRETARY SIMON'S REMARKS. (FYI. SECRETARY SIMON SAID IN RESPONSE TO A QUESTION ON LOCKHEED'S FUTURE THAT HE IS A MEMBER OF THE EMERGENCY LOAN SUPERVISORY COMMITTEE AND THAT HE IS FULLY CONFIDENT THAT LOCKHEED WILL RECOVER FROM ITS PRESENT DIFFICULTIES TO BECOME A SOLID MONEY EARNER IN THE LATE 1970'S. END FYI.)

IN REGARD TO THE QUESTION OF THE REASONABLENESS OF THE PRICE WHICH HAS BEEN NEGOTIATED WITH LOCKHEED, I WISH TO INFORM YOUR ROYAL HIGHNESS THAT IT IS NOT NORMAL PRACTICE FOR THE UNITED STATES GOVERNMENT TO EVALUATE THE COST OF COMMERCIAL CONTRACTS BETWEEN U.S. FIRMS AND FOREIGN GOVERNMENTS. HOWEVER, I NOTE THAT IN THIS REGARD THAT THE SAUDI ARABIAN GOVERNMENT RECEIVED A POSITIVE EVALUATION OF THE REASONABLENESS OF THE PRICE OF THE CONTRACT FROM THE RESIDENT MISSION OF THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO) WHICH IS THE PREEMINENT INTERNATIONAL ORGANIZATION DEALING WITH CIVIL AVIATION MATTERS OF THIS NATURE AND WHICH HAS PARTICULAR EXPERTISE IN THIS AREA.

I TRUST THAT THE FOREGOING INFORMATION WILL BE OF ASSISTANCE TO YOUR ROYAL HIGHNESS AND ASK THAT YOU LET ME KNOW IF I MAY BE OF FURTHER ASISTANCE IN THIS MATTER. END PROPOSED TEXT.

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5. SCHNEPP INFORMS US THAT LOCKHEED IS SENSING PARTICULAR URGENCY BECAUSE THEY ARE CONCERNED THAT PRICE INFLATION MIGHT SOON OBLIGE RENEGOTIATION OF THE WHOLE CONTRACT. ADDITIONALLY, SCHNEPP SAYS THAT THE BRITISH (INCLUDING LOCKHEED'S OWN PARTNERS IN THE PROJECT, MARCONI) ARE WAITING FOR LOCKHEED TO FALL ON ITS FACE SO THAT THEY CAN STEP IN AND TAKE OVER THE PROJECT. THE RESPONSE TO SULTAN'S QUERY SHOULD THEREFORE BE SENT AS SOON AS POSSIBLE AFTER IT IS RECEIVED.

6. ACTION REQUESTED: THAT THE DEPARTMENT APPROVE THE TEXT PROPOSED IN PARAGRAPH 4 OR PROVIDE ALTERNATIVE LANGUAGE. SINCE WE HAVE NOT YET RECEIVED A LETTER FROM SULTAN ON THE SUBJECT, WE WILL NEED SOME LATITUDE IN CONFORMING OUR

LETTER TO THAT TO WHICH IT RESPONDS.

PORTER

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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
Concepts: AIR TRAFFIC CONTROL, CONTRACTS, NEGOTIATIONS, DIPLOMATIC COMMUNICATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760088-0751
From: JIDDA
Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1976/newtext/t19760381/aaaactfq.tel
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Type: TE
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